

Current Support Brief

THE CEMA INTERNATIONAL BANK



CIA/RR CB 64-16

February 1964

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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THE CEMA INTERNATIONAL BANK

On 1 January 1964 the CEMA International Bank for Economic Cooperation (previously referred to as the "International Bank of Socialist Countries") was scheduled to begin operations. This event, however, will have little effect on the economic relations of the CEMA countries (which include Mongolia, the USSR, and the six Eastern European members). The refusal of these countries to grant CEMA any real authority in either planning or investment allocation as requested by Khrushchev has sharply reduced the Bank's potential role. As a consequence of CEMA's lack of authority, the Bank cannot be an instrument of financial control and will serve primarily as a central bookkeeper handling accounts between CEMA countries.

Although writers continue to extol the Bank's future possibilities, its main function for the present will be limited to handling the new multilateral clearing scheme within CEMA. The significance of this function, however, will be minimal, for this latest attempt to promote multilateral trade among CEMA countries appears to have little better prospects than the previous abortive effort, which since 1957 has been handled by Gosbank. Thus in spite of propaganda about the emerging international role of the ruble and its "convertibility" -- too often echoed in the Western press -- the establishment of the CEMA Bank will not enable members of CEMA to overcome the barriers that thus far have hindered their efforts to achieve economic integration and will amount to little more than an attempt to salvage a modicum of prestige.

1. Demise of a Khrushchevian Vision

With the rejection by the Eastern European countries of Khrushchev's proposal for a supranational planning authority within CEMA, the potential role of the International Bank for Economic Cooperation as an instrument for exerting the financial control of this authority was eliminated. The idea of a financial institution within CEMA had been under discussion for a number of years, and in an extensive article in August 1962 Khrushchev gave it his sanction when (in connection with his proposal for joint investment planning within CEMA from a pool of resources contributed by its members) he suggested a "joint bank of the socialist countries." Khrushchev, of course, did not envision a bank in the Western sense -- an institution that channels

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savings into investment in a market system -- but rather a bank that, like any bank of a Communist state, is primarily an instrument of financial control serving the central planning authorities.

That supranational planning -- which in Eastern Europe would include of necessity both investment and trade planning -- was Khrushchev's basic goal became fully evident in November 1962 when he proposed a "unified planning organ ... empowered to compile common plans." The December 1962 sessions of CEMA (17th Plenary and 3d Executive Committee), however, failed to implement Khrushchev's proposal, and opposition to it, especially vocal in Rumania, stiffened in the Eastern European countries in early 1963. With the implicit formal rejection of Khrushchev's proposal for supranational planning by the Conference of Party First Secretaries in July 1963, the possibility that the Bank would help to enforce CEMA-wide plans was eliminated.

With the demise of Khrushchev's supranational planning proposal, the concept of "multilateralism" in trade among the members of CEMA, and hence that of the potential role of the Bank, underwent fundamental revision. A system of multilateral clearing in the trade of relatively unimportant commodities has been in effect since 1957 but has proved largely ineffectual. The December 1962 session of the CEMA Executive Committee had established a permanent commission for currency and finance that was directed to draw up plans for both the CEMA Bank and a new system of multilateral clearing. This "new" multilateral clearing scheme was discussed in terms of both ex ante planned bilateral imbalances (whereby each country planned to balance its trade over-all but not, as at present, with each CEMA trading partner) and ex post clearing of unplanned imbalances. In early 1963, discussion of the Bank's potential began to emphasize its role in handling this still rather ill-defined multilateral clearing scheme, and after July the handling of clearing was recognized as the only significant function that the new Bank might perform. By the time the agreement for the Bank was signed in October 1963, therefore, the primary role for the Bank had become that of a bookkeeper for trade among CEMA countries.

2. Compromise Solutions

The same unwillingness to grant CEMA any real authority that undermined Khrushchev's central planning proposal also promises to hobble the authority and effectiveness of the CEMA International Bank

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for Economic Cooperation from the outset. As in other CEMA organizations, each country retains a veto power in the Bank's major policy decisions; the Bank has received no real "capital"; at best the multilateral clearing scheme will be only a slight improvement over the abortive 1957 arrangement; and the Bank will not have any real power to extend either short or long-term credit but will merely act as agent in the handling of credit extended by the member countries.

As the CEMA Bank begins operations, policy will be made by a council in which each country will have one vote, and all binding decisions must be voted unanimously. The council is to appoint one representative from each country to serve on a board, which will manage the Bank's operations within the limits set by the charter and under the direction of the council. At the first meeting of the council on 12-15 November 1963, Konstantin Nazarkin, a member of the board of the Soviet Foreign Trade Bank, was appointed chairman of the Board.

The operations of the Bank will be conducted in terms of a nominally new unit of account -- the transferable ruble (also called the transfer, settlement, convertible, or conversion ruble). The transferable ruble by definition has the same value as the Soviet foreign trade ruble (US \$1.11); and because for the present it will be in no way automatically transferable -- in spite of the myth of convertibility so often parroted in the West -- this ruble, like the "foreign trade" ruble, is merely another euphemism for the unit of account used by Bloc countries to record their external financial relations.

The nominal capital of the Bank will be 300 million transferable rubles, which will be contributed by each member country according to the volume of its trade with other CEMA countries (in millions of transferable rubles: Bulgaria, 17; Hungary, 21; East Germany, 55; Mongolia, 3; Poland, 27; Rumania, 16; the USSR, 116; and Czechoslovakia, 45). Twenty percent of each subscription is due in 1964. According to the agreement a capital "contribution" in transferable rubles amounts to a guarantee that the country will make exportable goods available up to the amount of this quota. How the Bank is empowered to utilize this "capital" is not clear from the agreement, but these quotas may represent some sort of limit on the Bank's nominal ability to extend short-term credits for above-plan trade or temporary trade difficulties.

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At present, therefore, it is not required that capital be subscribed in the form of domestic currency balances, gold or foreign exchange, or a pledge of specific goods. The text of the agreement, however, states that a portion of the capital subscription, "according to the desire of the country," may be made in convertible currency or gold 1/ and that at the end of the first year of the Bank's operation the council will "examine the question of holding part of the subscribed capital of the Bank in gold or freely convertible currency, and also will study the possibility of the Bank's conducting operations to exchange (transferable) rubles into gold and freely convertible currency." A small contribution of convertible currency by each member would enable the Bank to begin establishing contact with Western correspondent banks and to meet any travel or other expenses that it might incur outside CEMA. The idea that the Bank might eventually conduct "operations to exchange (transferable) rubles into gold and freely convertible currency," however, sounds more like a potential disciplinary power for encouraging credit repayment than any real thought of free convertibility in the Western sense. Such a disciplinary role for this conversion power in fact had been suggested by the Poles in order to insure the "lasting functioning" of the multilateral clearing scheme by preventing the "extended freezing" (nonpayment) of credit balances. 2/

The Bank lacks any real authority to extend either long-term or short-term credits. Its inability to grant long-term investment credits was confirmed when, after the formal signing of the agreements for the Bank in October 1963, the Executive Committee communiqué stated that the "bank may, upon the instruction of interested countries, finance ... the construction ... of industrial enterprises ... from resources allocated by these countries."* 3/ Although nominally the Bank can grant short-term credits, the Bank's credit plan, according to the agreement, is "drawn up on the basis of bilateral and multilateral commercial agreements according to the requests of authorized (member country) banks regarding the allocation of credit."* When unplanned imbalances develop because of above-plan trade or temporary trade difficulties, the Bank may grant credit only on approval of the trading countries or the council, where each member holds veto power. Thus the Bank has no independent power to grant credit and in effect merely acts as the agent for all CEMA countries.

The primary function of the Bank will be to handle the new CEMA multilateral clearing scheme, which will attempt to promote multilateral

* Underscoring added for emphasis.

trade within CEMA through some use of both voluntary ex ante planned clearing and voluntary ex post unplanned clearing. Trade will continue to be negotiated -- but not necessarily balanced -- on a bilateral basis first, and only after these agreements are concluded will "multilateral trade-financial talks" be held in an effort to plan to balance accounts multilaterally. The clearing of unplanned imbalances ex post will not be automatic. When all countries involved can agree, the Bank will handle the clearing of unplanned imbalances, much as Gosbank has done under the unsuccessful clearing scheme initiated in 1957. Although these arrangements to get together and discuss trade imbalances offer the possibility of greater multilateral trade, the over-all balance of each country's trade within CEMA will continue to be its own responsibility. There is no assurance, therefore, that such strictly voluntary agreements will be used on a significantly larger scale than in the past.

The Bank's council, however, according to the agreement, will have the power to set differential interest rates "depending on the type and period of credit and proceeding from the necessity to stimulate economical use of funds and to provide profit for the Bank." The ability to set differential interest rates is a real banking function not normally permitted to financial institutions within CEMA, and although the veto power held by each country in the council limits the potential disciplinary role of these rates, the acknowledgement that interest rates should be differentiated according to the "type and period" of a credit may mark a step toward the rationalization of economic criteria for CEMA countries.

Other functions, which the Bank eventually may perform, include dealing in convertible currencies or gold and handling accounts with nonmember countries, but in these fields there is little reason to expect this new CEMA Bank to offer any advantages over the national banks that handle these functions at present.

3. Prospects

There appears to be little reason for the optimism with which integration in general and the development of the CEMA International Bank for Economic Cooperation in particular are now viewed in Communist propaganda. In fact, this optimism is in marked contrast to another aspect of the current propaganda line. With their usual facility for making a virtue of necessity, CEMA spokesmen now claim that the "principles of cooperation [are] completely different from those which prevail in the Common Market." 4/ "West European integration organizations are

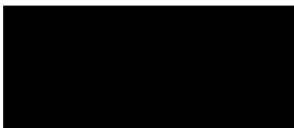
supranational organizations, whose decisions cannot be influenced by individual member States. The West European monopolies integrate various sectors, relocate their factories, and cut out inefficient sectors without regard to the local economy, and in pursuit of their one-sided interests and profits they deform the economies of individual member countries." 5/ With such a vivid realization of the fate from which they have escaped, the Satellites may be expected to continue to resist attempts to give CEMA or its new Bank any real supranational power.

Although the original purpose of the Bank foundered on the issue of supranational planning versus national sovereignty, in attempting to implement its primary remaining function, multilateral clearing, the Bank inherits serious -- hitherto unresolvable -- economic problems. In the absence of an international planning authority, the primary economic barriers to multilateralism within CEMA lie in the nature of nationally planned economies. Separate economic plans and the absence of markets for traded goods preclude the possibility of free transferability of claims among CEMA countries. As is evident both in domestic planning and in intra-Bloc bilateral trade negotiations, goods -- especially those in chronically short supply -- acquire priorities in relation to their importance to economic plans. As a result, prices do not afford -- and CEMA economists are unable to find -- an acceptable measure of value for transfers of trade balances among CEMA countries, and economic planners often prefer the assurance of supplies and markets afforded by bilateralism. Unless CEMA members make an unexpectedly great effort to overcome the problems of multilateral negotiations between sovereign states, efforts to promote multilateral trade and economic cooperation through such new, yet powerless, institutions as the International Bank for Economic Cooperation will remain unsuccessful.

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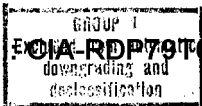
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